

**Auditing Procedures Report**

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Calumet		County Houghton
Fiscal Year End 02/28/2006	Opinion Date 07/12/2006	Date Audit Report Submitted to State 08/09/06		

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

SE 0 **Check each applicable box below.** (See instructions for further detail.)

- ☐ ☒ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
- ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
- ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
- ☒ ☐ The local unit has adopted a budget for all required funds.
- ☒ ☐ A public hearing on the budget was held in accordance with State statute.
- ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
- ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
- ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
- ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
- ☐ ☒ The local unit is free of repeated comments from previous years.
- ☐ ☒ The audit opinion is UNQUALIFIED.
- ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
- ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
- ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Single Audit Reports	
Certified Public Accountant (Firm Name) Jackie A. Aalto, CPA		Telephone Number (906) 337-2727	
Street Address 116 Fifth Street		City Calumet	State MI
Zip 49913			
Authorizing CPA Signature <i>Jackie A. Aalto</i>	Printed Name Jackie A. Aalto	License Number 1101022394	

**VILLAGE OF CALUMET, MICHIGAN**  
**Houghton County**

**FINANCIAL REPORT**

**Year Ended February 28, 2006**

**VILLAGE OF CALUMET, MICHIGAN**  
**FINANCIAL REPORT**  
**Year Ended February 28, 2006**

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## INDEPENDENT AUDITOR'S REPORT

The Village Council  
Village of Calumet, Michigan

I have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Calumet, Michigan as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Calumet, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

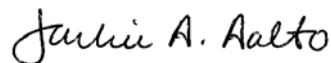
Management has not included the Volunteer Firemen's Fund in the Village's financial statements. Accounting principles generally accepted in the United States of America require the Volunteer Firemen's Fund to be presented as a special revenue fund and financial information about the Volunteer Firemen's Fund to be part of the governmental activities, thus increasing that activity's assets, liabilities, revenues, and expenses, and changing its net assets. The amount by which this departure would affect the assets, liabilities, net assets, revenues and expenses of the governmental activities is not reasonably determinable.

In my opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Village of Calumet, Michigan, as of February 28, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated July 12, 2006, on my consideration of the Village of Calumet, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 11 and 31 through 34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Calumet, Michigan's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Village of Calumet, Michigan. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Jackie A. Aalto, CPA

July 12, 2006

# VILLAGE OF CALUMET, MICHIGAN

## Management's Discussion and Analysis

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The management of the Village of Calumet, Michigan ("the Village") offers readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

- The assets of the Village exceeded its liabilities at the close of this fiscal year by \$1,131,612 (net assets). Governmental activities represented this entire total.
- The Village's total net assets increased by \$588,276. This increase was primarily due to \$599,436 in grants received for street improvements.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$167,740, or 35% of total General Fund expenditures.
- The Village's total debt increased by a net amount of \$17,880 during the current fiscal year. This increase was the result of the purchase of a police vehicle.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or most of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village include general government, public safety,

highways and streets, sanitation, economic development and culture and recreation. The Village has no business-type activity.

The government-wide financial statements include not only the Village itself (known as the *primary government*), but also a legally separate Downtown Development Authority for which the Village is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 12 and 13 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide statement, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains eleven individual governmental funds. Information is presented separately in the government fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, Local Street Fund, Sanitation, and Grant Funds, all of which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Village adopts an annual appropriated budget for all of its funds except for the Grant Fund, which adopts a project-length budget. A budgetary comparison statement has been provided for the General Fund and each major special revenue fund to demonstrate compliance with the budgets.

The basic governmental fund financial statements can be found on pages 14 - 17 of this report.

**Proprietary funds.** There are two types of proprietary funds. Enterprise funds are used to account for business-like activities provided to the general public. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Village's various functions. The Village has no proprietary funds.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Village has no fiduciary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18 - 29 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* that explains and supports the information presented in the financial statements. This information can be found on pages 31 - 34 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining fund statements can be found on pages 36 and 37 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village, assets exceed liabilities by \$1,131,612 at the close of the most recent fiscal year.

A large portion of the Village's net assets (76%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### Village of Calumet, Michigan's Net Assets (in thousands of dollars)

	Governmental Activities	
	<u>2/28/06</u>	<u>2/28/05</u>
Current and other assets	\$ 385.5	\$ 337.5
Capital assets	<u>996.3</u>	<u>377.6</u>
Total Assets	<u>1,381.8</u>	<u>715.1</u>
Long-term liabilities outstanding	157.5	140.4
Other liabilities	<u>92.7</u>	<u>28.4</u>
Total Liabilities	<u>250.2</u>	<u>168.8</u>
Net Assets:		
Invested in capital assets, net of related debt	858.4	257.6
Restricted	43.8	53.0
Unrestricted	<u>229.4</u>	<u>235.7</u>
Total Net Assets	<u>\$ 1,131.6</u>	<u>\$ 546.3</u>



An additional portion of the Village's net assets (4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$229,441) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Village is able to report positive balances in all three categories of net assets.

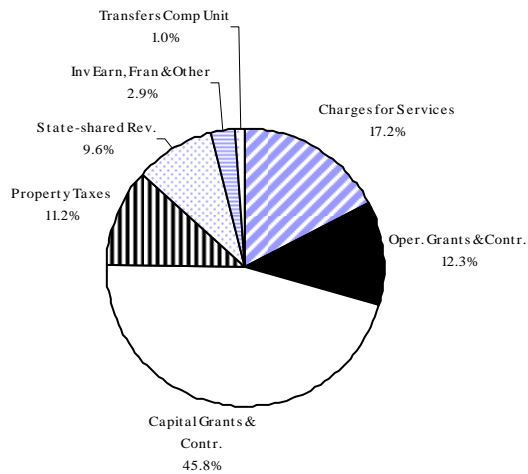
The Village's net assets increased by \$588,276 during the current fiscal year. This increase was due to \$599,436 in grants received for street improvements. Key elements of this increase are as follows:

**Village of Calumet, Michigan's Changes in Net Assets**  
(in thousands of dollars)

	<u>Governmental Activities</u>	
	<u>2/28/06</u>	<u>2/28/05</u>
Revenues:		
Program revenues:		
Charges for services	\$ 229.8	\$ 219.3
Operating grants & contributions	164.4	167.1
Capital grants & contributions	610.9	
General revenues:		
Property taxes	148.9	137.4
State-shared revenues	127.7	150.9
Other	38.1	41.4
Transfers with component unit	<u>13.1</u>	<u>11.5</u>
Total Revenues	<u>1,332.9</u>	<u>727.6</u>
Expenses:		
General government	142.9	156.5
Public safety	161.8	178.0
Public works	175.4	166.4
Highways & streets	196.0	189.1
Recreations & culture	13.4	8.8
Sanitation	47.3	46.2
Interest on long-term debt	<u>7.8</u>	<u>7.6</u>
Total Expenses	<u>744.6</u>	<u>752.6</u>
Increase (decrease) in net assets	588.3	(25.0)
Net Assets – Beginning	<u>543.3</u>	<u>568.3</u>
Net Assets – Ending	<u>\$ 1,131.6</u>	<u>\$ 543.3</u>

The following two charts highlight the Village's governmental activities by revenues and expenses.

### Revenues - Governmental Activities



The most significant portion of the revenues for all governmental activities for the current fiscal year of the Village comes from Capital Grants & Contributions. This is the result of grants received for street improvements.

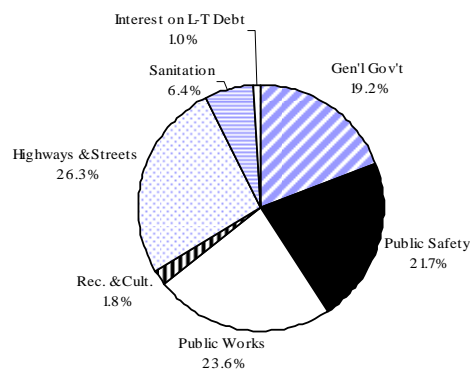
Charges for Services are typically a significant portion of revenues. The largest portion of this revenue comes from internal equipment rentals. The other main source of this revenue is from sanitation fees charged to Village residents.

Operating Grants and Contributions are a major source of revenue. This figure includes Michigan Transportation Fund (Act 51) money for the Major and Local Street Funds.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the state sales tax. During the year, the amount of state shared revenue received by the Village trended downward, representing declining sales tax collections and discretionary cuts by the State in revenue sharing payments.

Property taxes are a major source of the revenue. The Village's operating millage was 21.4697, which includes 2.9265 mills for additional operating purposes. The Village's charter allows the Village to levy up to 12.5 mills for general operations, 5.0 mills for streets, and 3.0 mills for garbage. Due to State of Michigan statutes, the Village is at its maximum millage tax levy, and is unable to increase the millage without the approval of the voters.

### Expenses - Governmental Activities



The most significant portion of the expenses for all governmental activities of the Village is for Highways & Streets. This is due to heavy snow removal activities. Public Works includes maintenance support activities for snow removal operations. Public Safety expenses include police and fire department operations and the General Government expenses represent village hall activities.

### **Financial Analysis of the Government's Funds**

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$249,829. Approximately 78% of this total amount (\$193,896) constitutes unreserved, undesignated fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to pay debt service and for a variety of other purposes.

The General Fund is the chief operating fund of the Village. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$167,740, while total fund balance was \$179,128. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 35% of total General Fund expenditures, while total fund balance represents 37% of that same amount.

The fund balance of the Village's General Fund increased by \$5,055 during the current fiscal year.

### **General Fund Budgetary Highlights**

During the year there was a \$54,729 decrease in appropriations between the original and final amended budget. The decrease was due to overall budget cuts made by the Village.

### **Capital Asset and Debt Administration**

**Capital Assets.** The Village's investment in capital assets for its governmental activities as of February 28, 2006, amounts to \$996,270 (net of accumulated depreciation). This investment in capital assets includes land, historical treasures, buildings, improvements, machinery and equipment, park facilities, and infrastructure.

Major capital asset events during the current fiscal year included the following:

- Improvements and rebricking of 5<sup>th</sup> Street at a cost of \$580,023.
- Construction began on the resurfacing of Oak Street; construction in progress as of the close of the fiscal year had reached \$35,210.
- A new police vehicle was purchased for \$25,150.
- Land was acquired for \$8,821 for use as a snow dumping site.

**Village of Calumet, Michigan's Capital Assets**  
(net of depreciation)  
(in thousands of dollars)

	<u>Governmental Activities</u>	
	<u>2/28/06</u>	<u>2/28/05</u>
Land	\$ 72.9	\$ 64.1
Historical treasure	48.0	48.0
Construction in progress	35.2	
Buildings & site improvements	6.4	8.1
Machinery & equipment	120.0	133.6
Vehicles	22.6	2.1
Water lines	117.5	121.7
Infrastructure	<u>573.6</u>	<u></u>
Total Assets	<u>\$ 996.2</u>	<u>\$ 377.6</u>

Additional information on the Village's capital assets can be found in note 4 on page 25 of this report.

**Long-term debt.** At the end of the current fiscal year, the Village had total debt of \$137,880. This total amount is backed by the full faith and credit of the government and a police vehicle. The Village's total debt increased by \$17,880 during the current fiscal year, because of the purchase of a police vehicle.

Additional information on the Village's long-term debt can be found in note 6 on page 27 of this report.

**Request for Information**

This financial report is intended to provide a general overview of the Village's finances for all those with an interest in the Village's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village of Calumet, PO Box 46, Calumet, Michigan 49913.

# VILLAGE OF CALUMET, MICHIGAN

## Statement of Net Assets

February 28, 2006

	Primary Government			Component Unit
	Governmental	Business-type		
	Activities	Activities	Total	DDA
<b>Assets</b>				
Cash	\$ 166,700	\$	\$ 166,700	\$ 59,259
Receivables, net	206,633		206,633	2,464
Inventories	6,082		6,082	
Prepays	6,070		6,070	
Capital assets not being depreciated	156,125		156,125	
Capital assets net of accumulated depreciation	<u>840,145</u>	<u></u>	<u>840,145</u>	<u>99,707</u>
Total Assets	<u>1,381,755</u>	<u></u>	<u>1,381,755</u>	<u>161,430</u>
<b>Liabilities</b>				
Accounts payable & other current liabilities	89,734		89,734	8,366
Accrued interest payable	2,875		2,875	
Noncurrent liabilities:				
Due within one year	9,659		9,659	
Due in more than one year	<u>147,875</u>	<u></u>	<u>147,875</u>	<u></u>
Total Liabilities	<u>250,143</u>	<u></u>	<u>250,143</u>	<u>8,366</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	858,390		858,390	99,707
Restricted for:				
Historic preservation	5,318		5,318	
Highways & streets	38,402		38,402	
Debt service	61		61	
Unrestricted	<u>229,441</u>	<u></u>	<u>229,441</u>	<u>53,357</u>
Total Net Assets	<u>\$1,131,612</u>	<u>\$</u>	<u>\$1,131,612</u>	<u>\$ 153,064</u>

The notes to the financial statements are an integral part of this statement.

# VILLAGE OF CALUMET, MICHIGAN

## Statement of Activities

Year Ended February 28, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-type Activities	Total	DDA
<b>Primary Government:</b>								
Governmental Activities								
General government	\$ 142,870	\$ 210	\$ 10,999	\$	\$ (131,661)	\$	\$ (131,661)	\$
Public safety	161,758	1,020	7,769		(152,969)		(152,969)	
Public works	175,393	62,589			(112,804)		(112,804)	
Highways & streets	196,062	131,572	145,675	610,908	692,093		692,093	
Recreation & culture	13,421	1,200			(12,221)		(12,221)	
Sanitation	47,364	33,160			(14,204)		(14,204)	
Interest on long-term debt	7,778				(7,778)		(7,778)	
Total Governmental Activities	744,646	229,751	164,443	610,908	260,456			
Business-type Activities								
Total Primary Government	\$ 744,646	\$ 229,751	\$ 164,443	\$ 610,908	260,456		260,456	
<b>Component Unit:</b>								
DDA District	\$ 18,932	\$	\$	\$				(18,932)
General Revenues:								
Property taxes					148,900		148,900	44,047
State-shared revenues					127,705		127,705	
Unrestricted investment earnings					1,946		1,946	358
Franchise fees					3,026		3,026	
Other					33,143		33,143	
Transfers					121,932	(121,932)		
Transfers with component units					13,100		13,100	(13,100)
Total General Revenues and Transfers					449,752	(121,932)	327,820	31,305
Change in Net Assets					710,208	(121,932)	588,276	12,373
Net Assets – Beginning					421,404	121,932	543,336	140,691
Net Assets – Ending					\$ 1,131,612	\$	\$ 1,131,612	\$ 153,064

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF CALUMET, MICHIGAN**

**Balance Sheet  
Governmental Funds**

**February 28, 2006**

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Sanitation</u>	<u>Capital Projects Grant</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Assets</b>							
Cash	\$ 10,943	\$ 35,662	\$ 38,001	\$ 40,402	\$ 5,335	\$ 36,357	\$ 166,700
Receivables (net):							
Taxes	18,196			3,368		5,615	27,179
Accounts	31,688			14,118		2,728	48,534
Due from other funds	123,922						123,922
Intergovernmental receivable:							
Federal					36,904		36,904
State	27,784	51,349	14,883				94,016
Prepays	6,070						6,070
Inventories						6,082	6,082
<b>Total Assets</b>	<u>\$ 218,603</u>	<u>\$ 87,011</u>	<u>\$ 52,884</u>	<u>\$ 57,888</u>	<u>\$ 42,239</u>	<u>\$ 50,782</u>	<u>\$ 509,407</u>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
Accounts payable	\$ 11,364	\$ 16,331	\$ 6,661	\$ 2,470	\$	\$ 21	\$ 36,847
Contracts payable					35,751		35,751
Retainage payable					9,956		9,956
Accrued liabilities	4,431	2,017	732				7,180
Due to other funds		44,825	43,456	34,783	858		123,922
Deferred revenues:							
Taxes	18,181			3,366		5,610	27,157
Other	5,499			13,266			18,765
<b>Total Liabilities</b>	<u>39,475</u>	<u>63,173</u>	<u>50,849</u>	<u>53,885</u>	<u>46,565</u>	<u>5,631</u>	<u>259,578</u>
<b>Fund Balances</b>							
Reserved for:							
Prepays	6,070						6,070
Historic preservation	5,318						5,318
Highways & streets		23,838	2,035			12,529	38,402
Inventories						6,082	6,082
Debt service						61	61
Unreserved (major funds)	167,740			4,003	(4,326)		167,417
Unreserved (nonmajor funds)						26,479	26,479
Special revenue funds							
<b>Total Fund Balances</b>	<u>179,128</u>	<u>23,838</u>	<u>2,035</u>	<u>4,003</u>	<u>(4,326)</u>	<u>45,151</u>	<u>249,829</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 218,603</u>	<u>\$ 87,011</u>	<u>\$ 52,884</u>	<u>\$ 57,888</u>	<u>\$ 42,239</u>	<u>\$ 50,782</u>	

VILLAGE OF CALUMET, MICHIGAN

Balance Sheet (Continued)  
Governmental Funds

February 28, 2006

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	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Sanitation</u>	<u>Capital Projects Grant</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Amounts reported for governmental activities in the statement of net assets are different because:							
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.							996,270
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.							45,922
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.							<u>(160,409)</u>
Net assets of governmental activities							<u>\$ 1,131,612</u>

The notes to the financial statements are an integral part of this statement.



**VILLAGE OF CALUMET, MICHIGAN**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds**

**Year Ended February 28, 2006**

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Sanitation</u>	<u>Capital Projects Grant</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Revenues</b>							
Taxes	\$ 96,369	\$	\$	\$ 17,327	\$	\$ 38,989	\$ 152,685
Licenses & permits	3,058						3,058
Intergovernmental							
Federal	4,135				599,436		603,571
State	140,609	118,823	26,852				286,284
Charges for services	46,492			33,160		210	79,862
Fines & forfeits	4,440						4,440
Interest & rents	146,142	458	392	282		573	147,847
Other revenues	28,912				11,472	4,231	44,615
Total Revenues	<u>470,157</u>	<u>119,281</u>	<u>27,244</u>	<u>50,769</u>	<u>610,908</u>	<u>44,003</u>	<u>1,322,362</u>
<b>Expenditures</b>							
Current							
General government	84,985	615	550	1,555		5,945	93,650
Public safety	106,067						106,067
Public works	106,765					233	106,998
Highways & streets		135,674	51,197			2,746	189,617
Sanitation				47,364			47,364
Recreation & culture	10,689						10,689
Other	151,696						151,696
Debt service							
Principal						7,270	7,270
Interest						7,903	7,903
Capital outlay	<u>25,150</u>				<u>615,234</u>	<u>9,752</u>	<u>650,136</u>
Total Expenditures	<u>485,352</u>	<u>136,289</u>	<u>51,747</u>	<u>48,919</u>	<u>615,234</u>	<u>33,849</u>	<u>1,371,390</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(15,195)</u>	<u>(17,008)</u>	<u>(24,503)</u>	<u>1,850</u>	<u>(4,326)</u>	<u>10,154</u>	<u>(49,028)</u>
<b>Other Financing Sources (Uses)</b>							
Loan proceeds	25,150						25,150
Transfers in	1,600	20,000	14,000	5,000		18,172	58,772
Transfers out	<u>(6,500)</u>	<u>(2,323)</u>				<u>(36,849)</u>	<u>(45,672)</u>
Total Other Financing Sources (Uses)	<u>20,250</u>	<u>17,677</u>	<u>14,000</u>	<u>5,000</u>		<u>(18,677)</u>	<u>38,250</u>
<b>Net Change in Fund Balances</b>	5,055	669	(10,503)	6,850	(4,326)	(8,523)	(10,778)
<b>Fund Balances – Beginning</b>	<u>174,073</u>	<u>23,169</u>	<u>12,538</u>	<u>(2,847)</u>		<u>53,674</u>	
<b>Fund Balances – Ending</b>	<u>\$ 179,128</u>	<u>\$ 23,838</u>	<u>\$ 2,035</u>	<u>\$ 4,003</u>	<u>\$ (4,326)</u>	<u>\$ 45,151</u>	

# VILLAGE OF CALUMET, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balances (Continued) Governmental Funds

Year Ended February 28, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Sanitation</u>	<u>Capital Projects Grant</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Amounts reported for governmental activities in the statement of activities are different because:							
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.							740,517
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the amount by which deferred revenues decreased during the current year.							(2,540)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt.							(17,880)
In the statement of activities certain expenses (i.e. compensated absences) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year amounts used exceeded the amounts earned.							764
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which interest payable decreased during the current year.							<u>125</u>
Change in Net Assets of Governmental Activities							<u>\$ 710,208</u>

The notes to the financial statements are an integral part of this statement.

# VILLAGE OF CALUMET, MICHIGAN

## Notes to Financial Statements

February 28, 2006

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### Note 1 Summary of Significant Accounting Policies

#### A. Reporting Entity

The Village of Calumet, Michigan was incorporated in 1875. The Village is governed by an elected seven member council consisting of a president and six trustees. The Village provides services to its residents in many areas including law enforcement, fire protection, street maintenance, sanitation, recreation and community enrichment. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. This discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

**Discretely Presented Component Unit** - GASB Statement No. 14, *The Financial Reporting Entity*, as amended, contains the standards for defining the governmental financial reporting entity and for identifying which legally separate entities are component units that should be included with another government (usually a primary government) in a financial reporting entity's financial statements. Requirements for including component units are based primarily on the concept of financial accountability. A primary government is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The Village has one component unit.

The component unit column in the government-wide financial statements includes the financial data of the Downtown Development Authority ("DDA") established in 1992 by the Village under provisions of Act 197, P.A. of 1975 as amended (MCL 125.1651). It is governed by a nine member board appointed by the Village's governing board. The DDA adopted a development and tax increment financing plan in 1992 to provide tax increment revenues to pay for improvements within the DDA district. The DDA is presented as a governmental fund type. Financial statement details of the component unit can be obtained from the Village's office.

**Jointly Governed Organization** – The Village, in conjunction with three other governmental entities, created the North Houghton County Water & Sewage Authority ("the Authority") to provide wastewater collection, transmission and treatment. The Authority's board is comprised of seven members, one of which is from the Village. The Authority's board has control over its own budgeting and financing obligations. All of the financial operations of the Authority are recorded in the records of the Authority. It is expected that the revenues generated from the Authority system users will be adequate to operate the sewage system and pay back the related construction debt and interest of the Authority. Separately issued financial statements are available from the Authority.

# **VILLAGE OF CALUMET, MICHIGAN**

## **Notes to Financial Statements**

**February 28, 2006**

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**Other** – An association which meets certain criteria for including its financial activity in the Village's basic financial statements is the Volunteer Firemen's Fund. Since the Volunteer Firemen's Fund is not a separate legal entity, and money raised thereof is done in the name of the Village, the financial activity of the fund should be a part of the Village reporting entity.

See Note 9 for information pertaining to a related organization.

### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. The Village has no proprietary or fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available

# VILLAGE OF CALUMET, MICHIGAN

## Notes to Financial Statements

February 28, 2006

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when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The *Local Street Fund* accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

The *Sanitation Fund* accounts for the activities of the Village's garbage removal operations.

The *Grant Fund* accounts for the development, improvement and rehabilitation of Village infrastructure.

Additionally, the Village reports the following nonmajor governmental funds: Revolving Loan, Municipal Street, Public Improvement, Replacement and Maintenance, Water, Historic District Commission and Debt Service.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's

# VILLAGE OF CALUMET, MICHIGAN

## Notes to Financial Statements

February 28, 2006

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sanitation function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

### **D. Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits** – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The Village did not have any short-term investments at February 28, 2006.

**Receivables and Payables** – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

When applicable, advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles. Property taxes are levied on July 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on September 15<sup>th</sup>, at which time penalties and interest are assessed.

The 2005 taxable valuation of the Village totaled \$7,217,766, on which ad valorem taxes levied consisted of 11.3071 mills for operating purposes, 2.9265 mills for additional operating purposes, 4.5226 mills for street maintenance, and 2.7135 mills for garbage removal. This resulted in \$102,793 for operating, \$32,661 for street maintenance, and \$19,585 for garbage removal. These amounts are recognized in the respective General and

# VILLAGE OF CALUMET, MICHIGAN

## Notes to Financial Statements

February 28, 2006

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Special Revenue Fund financial statements as taxes receivable – current or as tax revenue. The Village also levied 1.3216 mills on property owners within the Downtown Development Authority district. This resulted in \$4,811. The DDA financial activity is recorded in the DDA Fund and is presented in the financial statements as a discretely presented component unit.

**Inventories and Prepaid Items** – All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

Prior to March 1, 2004, governmental funds' infrastructure assets were not capitalized. Infrastructure assets acquired since March 1, 2004 will be recorded at cost.

In previous years the Village's Water Fund was presented as an enterprise fund. The Water Fund is now being reported as a special revenue fund as Village residents are no longer being assessed a surcharge for water line improvements. The capital assets (water lines) are being reported as part of the governmental activities in the government-wide financial statements.

Property, plant and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40 to 60 years
Site Improvements	10 to 15 years
Water Lines	35 to 80 years
Infrastructure	15 to 30 years
Vehicles	5 to 25 years
Office Equipment & Furnishings	10 to 15 years

# VILLAGE OF CALUMET, MICHIGAN

## Notes to Financial Statements

February 28, 2006

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**Compensated Absences (Vacation and Sick Leave)** – It is the Village's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**Long-Term Obligations** – In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. When applicable, bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Comparative Data/Reclassifications** – Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

### Note 2 Stewardship, Compliance and Accountability

#### A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except for the Grant Fund, which adopts a project-length budget. All annual appropriations lapse at fiscal year end.



# VILLAGE OF CALUMET, MICHIGAN

## Notes to Financial Statements

February 28, 2006

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The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control (i.e., the level of which expenditures may not legally exceed appropriations) is the activity level. Encumbrance accounting is not employed in the governmental funds.

### **B. Excess of Expenditures over Appropriations**

For the year ended February 28, 2006, expenditures exceeded appropriations in the General, Major Street, Local Street and Water Fund by \$19,020, \$6,333, \$2,767 and \$547, respectively. These over expenditures were funded by available fund balances.

### **Note 3 Deposits and Investments**

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village has designated five banks for the deposit of Village funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997. The Village's deposits and investment policy are in accordance with statutory authority.

At year-end, the Village's deposits were reported in the basic financial statements in the following categories (the Village has no investments):

	<u>Governmental Activities</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
Cash	<u>\$ 166,700</u>	<u>\$ 166,700</u>	<u>\$ 59,259</u>

The breakdown between deposits is as follows:

# VILLAGE OF CALUMET, MICHIGAN

## Notes to Financial Statements

February 28, 2006

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	Primary Government	Component Unit
Bank deposits (checking and savings accounts)	\$ 166,600	\$ 59,259
Petty cash and cash on hand	<u>100</u>	<u>          </u>
Total	<u>\$ 166,700</u>	<u>\$ 59,259</u>

The bank balance of the primary government's deposits is \$176,106, of which \$117,222 is covered by federal depository insurance and \$58,884 is uninsured. The bank balance of the component unit's deposits is \$59,293, all of which is covered by federal depository insurance.

### Note 4 Capital Assets

Capital asset activity for the year ended February 28, 2006 was as follows:

#### Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 64,094	\$ 8,821	\$	\$ 72,915
Historical treasure	48,000			48,000
Construction in progress	<u>          </u>	<u>35,210</u>	<u>          </u>	<u>35,210</u>
Total capital assets, not being depreciated	<u>112,094</u>	<u>44,031</u>	<u>          </u>	<u>156,125</u>
Capital assets, being depreciated:				
Buildings & site improvements	116,353			116,353
Machinery & equipment	539,765	932		540,697
Vehicles	20,700	25,150		45,850
Water lines	213,513			213,513
Infrastructure	<u>          </u>	<u>580,023</u>	<u>          </u>	<u>580,023</u>
Total capital assets being depreciated	<u>890,331</u>	<u>606,105</u>	<u>          </u>	<u>1,496,436</u>
Accumulated depreciation:				
Building & site improvements	(108,251)	(1,687)		(109,938)
Machinery & equipment	(406,084)	(14,564)		(420,648)
Vehicles	(18,630)	(4,585)		(23,215)
Water lines	(91,775)	(4,270)		(96,045)
Infrastructure	<u>          </u>	<u>(6,445)</u>	<u>          </u>	<u>(6,445)</u>
Total accumulated depreciation	<u>(624,740)</u>	<u>(31,551)</u>	<u>          </u>	<u>(656,291)</u>

# VILLAGE OF CALUMET, MICHIGAN

## Notes to Financial Statements

February 28, 2006

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	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Total capital assets being depreciated, net	<u>265,591</u>	<u>574,554</u>	<u>          </u>	<u>840,145</u>
Governmental activities capital assets, net	<u>\$ 377,685</u>	<u>\$ 618,585</u>	<u>\$           </u>	<u>\$ 996,270</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

### Governmental Activities:

Public safety	\$ 6,884
Public works	16,752
Highways & streets, including depreciation of general infrastructure assets	6,445
Recreation & culture	<u>1,470</u>

Total depreciation expense – governmental activities	<u>\$ 31,551</u>
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### Construction Commitments

The Village has active construction projects as of February 28, 2006. The projects include street resurfacing and improvements to a historic building. At year end the Village's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Street resurfacing	\$ 23,459	\$ 239,386
Building improvements	<u>11,751</u>	<u>190,149</u>
Total	<u>\$ 35,210</u>	<u>\$ 429,535</u>

The street resurfacing project is being financed by a \$223,418 CDBG grant, with the balance of the funds coming from the Village and private contributions. The building improvement project is being financed by a \$100,000 CDBG grant, with the balance of the funds coming from the Village and private contributions.

### Discretely Presented Component Unit

Activity for the Downtown Development Authority for the year ended February 28, 2006 was as follows:

# VILLAGE OF CALUMET, MICHIGAN

## Notes to Financial Statements

February 28, 2006

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Construction in progress	\$ 99,707	\$	\$	\$ 99,707

### Note 5 Interfund Receivables, Payables and Transfers

The composition of interfund balances as of February 28, 2006 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Major Street	\$ 44,825
	Local Street	43,456
	Sanitation	34,783
	Grant	858
Total		<u>\$ 123,922</u>

Interfund Transfers:

	<u>Transfer In:</u>					
	<u>Sanitation</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Non-Major Governmental</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
Transfer Out:						
General	\$ 5,000	\$	\$	\$ 1,500	\$ 6,500	\$ 1,600
Major Street				2,323	2,323	
Nonmajor Governmental Funds		<u>20,000</u>	<u>14,000</u>	<u>2,849</u>	<u>36,849</u>	<u>11,500</u>
Total	<u>\$ 5,000</u>	<u>\$ 20,000</u>	<u>\$ 14,000</u>	<u>\$ 6,672</u>	<u>\$ 45,672</u>	<u>\$ 13,100</u>

### Note 6 Long-Term Debt

General obligation bonds and loans are direct obligations and pledge the full faith and credit of the Village. Contractual agreements and installment purchase agreements are also general obligations of the Village.

Bond and contractual activity for the year ended February 28, 2006 was as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities						
General Obligations Bonds						
\$160,000 1997 Michigan						
Transportation Fund Bond Loan	6.00%	10-1-2016	\$ 120,000	\$ (5,000)	\$ 115,000	\$ 5,000

# VILLAGE OF CALUMET, MICHIGAN

## Notes to Financial Statements

February 28, 2006

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Loan-police vehicle	4.95%	9-17-2010		22,880	22,880	4,659
Subtotal bond & loan obligations			120,000	17,880	137,880	9,659
Other Long-Term Obligations						
Compensated absences			20,418	(764)	19,654	
Total Governmental Activities			<u>\$ 140,418</u>	<u>\$ 17,116</u>	<u>\$ 157,534</u>	<u>\$ 9,659</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End February 28,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 9,660	\$ 7,929
2008	9,895	7,393
2009	15,143	6,845
2010	15,404	5,985
2011	12,778	5,166
2012-2016	60,000	16,200
2017	<u>15,000</u>	<u>900</u>
Total	<u>\$ 137,880</u>	<u>\$ 50,418</u>

During the current fiscal year the Village paid \$7,903 in interest expense. The entire amount was expensed.

### Note 7 Lease Agreement

The water line lease and operating agreement between the Village of Calumet, Michigan and Michigan-American Water Company is dated October 1, 1983. Annual rental is based on 10 % of the revenue generated by Michigan-American Water Company from Village residents. This rental income is recorded in the General Fund and amounts to \$10,103 for the year ended February 28, 2006.

### Note 8 Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and employee injuries (workers' compensation), as well as medical benefits provided to employees. All risk of loss is covered by commercial insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

# **VILLAGE OF CALUMET, MICHIGAN**

## **Notes to Financial Statements**

**February 28, 2006**

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### **Note 9 Related Organization**

The Calumet Housing Commission (“the Commission”) is a related organization which is excluded from the financial reporting entity because the Village’s accountability does not extend beyond making appointments. The Commission provides low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development. The Village has no influence over the management, budget or policies of the Commission. The Commission reports independently and a copy of its audited financial statement is available from them.

### **Note 10 Employee Retirement and Benefit Systems**

The Village funds a simplified employee pension plan for its unionized employees, which is a defined contribution pension plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual’s account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant’s account and the returns earned on investments of those contributions.

As established by the Village, only unionized employees are eligible to participate. The Village contributes to the individual retirement accounts, of those eligible, a percentage of their gross compensation ranging from 1% after 1 year of service up to 10% after 10 years and 4% after 4 years of service up to 10% after 10 years for the police and public works departments, respectively. Contributions vest 100% immediately. Pension costs amounted to \$8,442 for the year ended February 28, 2006.

### **Note 11 Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

## **Required Supplementary Information**

# VILLAGE OF CALUMET, MICHIGAN

## Budgetary Comparison Schedule General Fund Year Ended February 28, 2006

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	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 174,073	\$ 174,073	\$ 174,073
Resources (Inflows):			
Taxes	100,000	91,414	96,369
Licenses & permits	1,800	3,038	3,058
Intergovernmental			
Federal	6,341	4,135	4,135
State	130,000	141,086	140,609
Charges for services	30,000	43,762	46,492
Fines & forfeits	18,700	4,408	4,440
Interest & rents	135,400	129,613	146,142
Other revenues	23,000	29,122	28,912
Loan proceeds			25,150
Transfers in		1,700	1,600
	<u>619,314</u>	<u>622,351</u>	<u>670,980</u>
Amounts Available for Appropriation			
Charges to Appropriations (Outflows):			
General government	86,725	84,994	84,985
Public safety	121,803	108,493	106,067
Public works	97,300	107,183	106,765
Recreation & culture	10,400	10,820	10,689
Other	175,633	154,842	151,696
Capital outlay			25,150
Transfers out	35,700	6,500	6,500
	<u>527,561</u>	<u>472,832</u>	<u>491,852</u>
Total Charges to Appropriations			
Ending Budgetary Fund Balance	<u>\$ 91,753</u>	<u>\$ 149,519</u>	<u>\$ 179,128</u>



**VILLAGE OF CALUMET, MICHIGAN**

**Budgetary Comparison Schedule  
Major Street Fund  
Year Ended February 28, 2006**

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	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 23,169	\$ 23,169	\$ 23,169
Resources (Inflows):			
Intergovernmental – State	114,000	113,211	118,823
Interest	600	467	458
Transfers in	<u>32,000</u>	<u>20,000</u>	<u>20,000</u>
Amounts Available for Appropriation	<u>169,769</u>	<u>156,847</u>	<u>162,450</u>
Charges to Appropriations (Outflows):			
General government	1,000	615	615
Highways & streets	145,900	129,341	135,674
Transfers out	<u>2,333</u>	<u>2,323</u>	<u>2,323</u>
Total Charges to Appropriations	<u>149,233</u>	<u>132,279</u>	<u>138,612</u>
Ending Budgetary Fund Balance	<u>\$ 20,536</u>	<u>\$ 24,568</u>	<u>\$ 23,838</u>

**VILLAGE OF CALUMET, MICHIGAN**

**Budgetary Comparison Schedule  
Local Street Fund  
Year Ended February 28, 2006**

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	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 12,538	\$ 12,538	\$ 12,538
Resources (Inflows):			
Intergovernmental – State	30,000	26,462	26,852
Interest	300	393	392
Transfers in	<u>18,000</u>	<u>14,000</u>	<u>14,000</u>
Amounts Available for Appropriation	<u>60,838</u>	<u>53,393</u>	<u>53,782</u>
Charges to Appropriations (Outflows):			
General government	600	550	550
Highways & streets	<u>50,900</u>	<u>48,430</u>	<u>51,197</u>
Total Charges to Appropriations	<u>51,500</u>	<u>48,980</u>	<u>51,747</u>
Ending Budgetary Bund Balance	<u>\$ 9,338</u>	<u>\$ 4,413</u>	<u>\$ 2,035</u>

**VILLAGE OF CALUMET, MICHIGAN**

**Budgetary Comparison Schedule  
Sanitation Fund  
Year Ended February 28, 2006**

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	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ (2,847)	\$ (2,847)	\$ (2,847)
Resources (Inflows):			
Taxes	16,900	17,182	17,327
Charges for services	28,800	30,000	33,160
Interest	75	300	282
Transfers in	<u>3,000</u>	<u>5,000</u>	<u>5,000</u>
Amounts Available for Appropriation	<u>45,928</u>	<u>49,635</u>	<u>52,922</u>
Charges to Appropriations (Outflows):			
General government	2,000	1,565	1,555
Sanitation	<u>45,000</u>	<u>47,650</u>	<u>47,364</u>
Total Charges to Appropriations	<u>47,000</u>	<u>49,215</u>	<u>48,919</u>
Ending Budgetary Fund Balance	<u><u>\$ (1,072)</u></u>	<u><u>\$ 420</u></u>	<u><u>\$ 4,003</u></u>

## **Other Supplementary Information**

# VILLAGE OF CALUMET, MICHIGAN

## Combining Balance Sheet Nonmajor Governmental Funds February 28, 2006

	Special Revenue Funds					Total Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
	Revolving Loan	Municipal Street	Public Improvement Replace & Maint	Water	Historic District Commission			
<b>Assets</b>								
Cash	\$ 7,090	\$ 9,796	\$ 10,750	\$ 2,177	\$ 6,483	\$ 36,296	\$ 61	\$ 36,357
Receivables (net):								
Taxes		5,615				5,615		5,615
Accounts		2,728				2,728		2,728
Inventories		6,082				6,082		6,082
Total Assets	<u>\$ 7,090</u>	<u>\$ 24,221</u>	<u>\$ 10,750</u>	<u>\$ 2,177</u>	<u>\$ 6,483</u>	<u>\$ 50,721</u>	<u>\$ 61</u>	<u>\$ 50,782</u>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities</b>								
Accounts payable	\$	\$	\$	\$	\$ 21	\$ 21	\$	\$ 21
Deferred revenues – taxes		5,610				5,610		5,610
Total Liabilities		5,610			21	5,631		5,631
<b>Fund Balances</b>								
Reserved for:								
Inventories		6,082				6,082		6,082
Highways & streets		12,529				12,529		12,529
Debt service							61	61
Unreserved	7,090		10,750	2,177	6,462	26,479		26,479
Total Fund Balances	<u>7,090</u>	<u>18,611</u>	<u>10,750</u>	<u>2,177</u>	<u>6,462</u>	<u>45,090</u>	<u>61</u>	<u>45,151</u>
Total Liabilities and Fund Balances	<u>\$ 7,090</u>	<u>\$ 24,221</u>	<u>\$ 10,750</u>	<u>\$ 2,177</u>	<u>\$ 6,483</u>	<u>\$ 50,721</u>	<u>\$ 61</u>	<u>\$ 50,782</u>

# VILLAGE OF CALUMET, MICHIGAN

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds Year Ended February 28, 2006

	Special Revenue Funds					Total Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
	Revolving Loan	Municipal Street	Public Improvement Replace & Maint	Water	Historic District Commission			
<b>Revenues</b>								
Taxes	\$	\$ 38,989	\$	\$	\$	\$ 38,989	\$	\$ 38,989
Charges for services					210	210		210
Interest	53	232	211	28	47	571	2	573
Other revenues		<u>2,728</u>		<u>3</u>	<u>1,500</u>	<u>4,231</u>		<u>4,231</u>
Total Revenues	<u>53</u>	<u>41,949</u>	<u>211</u>	<u>31</u>	<u>1,757</u>	<u>44,001</u>	<u>2</u>	<u>44,003</u>
<b>Expenditures</b>								
Current								
General government	100	350	350	815	4,165	5,780	165	5,945
Public works				233		233		233
Highways & streets		2,746				2,746		2,746
Debt service								
Principal							7,270	7,270
Interest							7,903	7,903
Capital outlay			<u>9,752</u>			<u>9,752</u>		<u>9,752</u>
Total Expenditures	<u>100</u>	<u>3,096</u>	<u>10,102</u>	<u>1,048</u>	<u>4,165</u>	<u>18,511</u>	<u>15,338</u>	<u>33,849</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(47)</u>	<u>38,853</u>	<u>(9,891)</u>	<u>(1,017)</u>	<u>(2,408)</u>	<u>25,490</u>	<u>(15,336)</u>	<u>10,154</u>
<b>Other Financing Sources (Uses)</b>								
Transfers in					3,000	3,000	15,172	18,172
Transfers out		<u>(34,000)</u>	<u>(2,849)</u>			<u>(36,849)</u>		<u>(36,849)</u>
Total Other Financing Sources (Uses)		<u>(34,000)</u>	<u>(2,849)</u>		<u>3,000</u>	<u>(33,849)</u>	<u>15,172</u>	<u>(18,677)</u>
<b>Net Change in Fund Balances</b>	<u>(47)</u>	<u>4,853</u>	<u>(12,740)</u>	<u>(1,017)</u>	<u>592</u>	<u>(8,359)</u>	<u>(164)</u>	<u>(8,523)</u>
<b>Fund Balances – Beginning</b>	<u>7,137</u>	<u>13,758</u>	<u>23,490</u>	<u>3,194</u>	<u>5,870</u>	<u>53,449</u>	<u>225</u>	<u>53,674</u>
<b>Fund Balances – Ending</b>	<u>\$ 7,090</u>	<u>\$ 18,611</u>	<u>\$ 10,750</u>	<u>\$ 2,177</u>	<u>\$ 6,462</u>	<u>\$ 45,090</u>	<u>\$ 61</u>	<u>\$ 45,151</u>

# VILLAGE OF CALUMET, MICHIGAN

## Schedule of Expenditures of Federal Awards

**Year Ended February 28, 2006**

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Project Number	Award Amount	Federal Expenditures
<b>U.S. Department of Housing &amp; Urban Development</b>				
Passed through Michigan Community Development Block Grants/State Program:				
*Fifth Street Restoration Public Works Project	14.228	MSC 203071-PW	\$ 353,625	\$ 331,782
Oak Street Downtown Renovation Project	14.228	MSC 204019-EDIG	223,418	<u>19,630</u>
Total U.S. Department of Housing & Urban Development				351,412
<b>U.S. Department of Transportation</b>				
Passed through Michigan Department of Transportation:				
Highway Planning and Construction	20.205	STP 0531(328)	301,900	248,024
<b>U.S. Department of Justice</b>				
Public Safety Partnership and Community Policing Grants (COPS)	16.710	2002UMWX0359	122,347	<u>4,135</u>
Total Expenditures of Federal Awards				<u>\$ 603,571</u>

\*Denotes a major program.

The accompanying notes are an integral part of this schedule.

# **VILLAGE OF CALUMET, MICHIGAN**

## **Notes to Schedule of Expenditures of Federal Awards**

**Year Ended February 28, 2006**

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### **Note A – Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Village of Calumet, Michigan and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### **Note B – Oversight Agency**

The Department of Justice is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the Village of Calumet, Michigan's direct federal financial assistance.



## **VILLAGE OF CALUMET, MICHIGAN**

### **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

The Village Council  
Village of Calumet, Michigan

I have audited the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Village of Calumet, Michigan, as of and for the year ended February 28, 2006, which collectively comprise the Village of Calumet, Michigan's basic financial statements and have issued my report thereon dated July 12, 2006. The report on the basic financial statements was qualified because the financial statements do not include the Volunteer Firemen's Fund which should be included in order to conform to accounting principles generally accepted in the United States of America. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing my audit, I considered the Village of Calumet, Michigan's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Village of Calumet, Michigan's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described is not a material weakness.

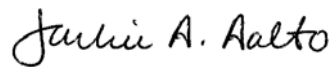
#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village of Calumet, Michigan's financial statements are free of material misstatement, I performed tests of its compliance with

certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, I noted certain matters that I reported to the management of the Village of Calumet, Michigan in a separate letter dated July 12, 2006

This report is intended solely for the information and use of the council membership, management, federal and state awarding agencies, and, if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Jackie A. Aalto".

Jackie A. Aalto, CPA

July 12, 2006

## **VILLAGE OF CALUMET, MICHIGAN**

### **Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133**

The Village Council  
Village of Calumet, Michigan

#### **Compliance**

I have audited the compliance of the Village of Calumet, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended February 28, 2006. The Village of Calumet, Michigan's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Village of Calumet, Michigan's management. My responsibility is to express an opinion of the Village of Calumet, Michigan's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the Village of Calumet, Michigan's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Village of Calumet, Michigan's compliance with those requirements.

In my opinion, the Village of Calumet, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended February 28, 2006.

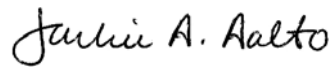
#### **Internal Control Over Compliance**

The management of the Village of Calumet, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the Village of Calumet, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted a certain matter involving the internal control over compliance and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention related to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment could adversely affect the Village of Calumet, Michigan's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2006-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of council membership, management, federal and state awarding agencies and, if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Jackie A. Aalto, CPA

July 12, 2006

# **VILLAGE OF CALUMET, MICHIGAN**

## **Schedule of Findings and Questioned Costs**

**Year Ended February 28, 2006**

### **SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses a qualified opinion on the financial statements of the Village of Calumet, Michigan.
2. One reportable condition disclosed during the audit of the financial statements is reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. The condition is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the Village of Calumet, Michigan, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One reportable condition in internal control over the major federal award program disclosed during the audit is reported in the Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133. The condition is not reported as a material weakness.
5. The auditor's report on compliance for the major federal award program for the Village of Calumet, Michigan expresses an unqualified opinion on its major federal program.
6. An audit finding that is required to be reported in accordance with Section 510(a) of OMB Circular A-133 is reported in this Schedule.
7. The program tested as a major program is the U.S. Department of Housing and Urban Development, Community Development Block Grants/ State Program, CFDA 14.228.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Village of Calumet, Michigan did not qualify as a low-risk auditee.

### **FINDINGS – FINANCIAL STATEMENT AUDIT**

#### **REPORTABLE CONDITIONS**

##### **2006-1 Internal Control Design**

*Criteria:* The segregation of incompatible financial duties is important to adequately protect the Village's assets and ensure accurate financial reporting.

*Condition:* Presently there is not an adequate number of personnel available to properly segregate duties to provide reasonable assurance that no one employee would have access to both physical assets and related accounting records, or to all phases of a transaction.

## **VILLAGE OF CALUMET, MICHIGAN**

### **Schedule of Findings and Questioned Costs (Continued)**

**Year Ended February 28, 2006**

*Effect:* Without proper segregation of duties, the risk increases that errors and fraud could occur and not be detected within a timely basis.

*Cause:* The Village's limited population and resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

*Recommendation:* Efficient segregation of duties in a small Village environment is often difficult; however, I feel that the Village council should be aware of the risk associated with this lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible.

### **FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT**

U.S. Department of Housing and Urban Development  
Community Development Block Grants/State Program CFDA 14.228

#### **2006-2 Reportable Condition**

The reportable condition at Finding 2006-01 also applies to this major federal award program.

**VILLAGE OF CALUMET, MICHIGAN**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended February 28, 2006**

There were no prior year findings or questioned costs related to the Village of Calumet, Michigan's major program.

July 12, 2006

The Village Council  
Village of Calumet, Michigan

In planning and performing my audit of the financial statements of the Village of Calumet, Michigan for the year ended February 28, 2006, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control. However, I noted a certain matter involving the internal control and its operation that I consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of internal control that, in my judgment, could adversely affect the Village of Calumet, Michigan's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Reportable Condition

1. The size of the Village's accounting and administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Village Council remains involved in the financial affairs of the Village to provide oversight and independent review functions.

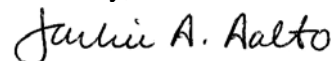
Other Comments and Recommendations

2. P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the current fiscal year, expenditures exceeded appropriations in the General, Major Street, Local Street and Water Funds by \$19,020, \$6,333, \$2,767, and \$547, respectively. It is recommended that the Village Council fully comply with all provisions of the Act.
3. The financial statements do not include the Volunteer Firemen's Fund. Because the department is not a separate legal entity, all of the financial activity should be reported in the Village's financial statements.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in my audit of the February 28, 2006 financial statements, and this report does not affect my report on those financial statements dated July 12, 2006. I have not considered the internal control since the date of my report.

This report is intended solely for the information and use of the council membership, management, federal and state awarding agencies, and, if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Jackie A. Aalto, CPA